

Message Text

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PAGE 01 LIMA 00473 181308Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 AGRE-00 NSC-05 SS-15
STR-06 CEA-01 INT-05 ABF-01 CU-04 FS-01 OPR-02
DODE-00 PA-01 PRS-01 /099 W
-----042567 181311Z /46

P R 172327Z JAN 78
FM AMEMBASSY LIMA
TO SECSTATE WASHDC PRIORITY 8314
INFO AMEMBASSY QUITO
AMEMBASSYBANTIAGO
AMEMBASSY LA PAZ

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E.O. 11652: N/A
TAGS: AFIN, EGEN, EALR, PE
SUBJECT: FINANCE MINISTER OUTLINES NEW ECONOMIC MEASURES

1. SUMMARY. IN NATIONWIDE TV APPEARANCE JANUARY 13, FINANCE MINISTER SAENZ OFFERED AN ALMOST TWO-HOUR DESCRIPTION OF PERU'S CURRENT ECONOMIC/FINANCIAL CRISIS AND ANNOUNCED NEW WAGE, PRICE, AND BUDGETARY MEASURES DESIGNED TO STABILIZE ECONOMY. WAGES FOR BOTH PUBLIC AND PRIVATE SECTORS WILL BE INCREASED BY EQUIVALENT OF U.S. \$ 8-16 PER MONTH, BUT PRIVATE SECTOR WORKERS WILL BE ALLOWED TO SEEK FURTHER INCREASES THROUGH COLLECTIVE BARGAINING BASED ON FIRM'S ABILITY TO PAY. SAENZ ADDED THAT SALARIES WERE UNDER CONSTANT REVIEW BY MULTI-SECTORIAL BOARD AND WERE SUBJECT TO FURTHER INCREASE, PERHAPS IN APRIL, IF SITUATION WARRANTED. CERTAIN PETROLEUM DERIVATIVES (BUT NOT GASOLINE), BASIC FOODSTUFFS, AND TRANSPORT COSTS RISE BY 17-33 PERCENT. MINISTER MADE NUMEROUS EFFORTS TO MOLLIFY WORKERS WITH PROLONGED DESCRIPTION OF SUBSIDIES WHICH WILL CONTINUE TO HOLD PRICES DOWN (E.G. FERTILIZERS, CANNED MILK, BREAD,
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EDIBLE OIL. HE ALSO EXPANDED SOMEWHAT ON REVENUE AND EXPENDITURE PROJECTIONS IN 1978 BUDGET, ALTHOUGH FULL BUDGET PICTURE AND ITS RELATIONSHIP TO IMF TARGETS IS STILL UNCLEAR. PRELIMINARY REACTION TO SPEECH BY LABOR AND BUSINESS WAS LOW KEY, THOUGH BUSINESSMEN ARE CONCERNED AT PROSPECT OF OPEN-ENDED WAGE NEGOTIATIONS THIS YEAR. IN GENERAL, MINISTER (PERHAPS WITH AN EYE TO THE GENERAL STRIKE THREATENED

FOR JANUARY 23-24) WAS CLEARLY ATTEMPTING TO STEER A
NARROW COURSE BETWEEN LABOR DEMANDS AND THE TARGETS OF
THE IMF AUSTERITY PROGRAM.
END SUMMARY.

2. WAGES. SAENZ ANNOUNCED THAT SALARIES OF PUBLIC
SECTOR WORKERS WOULD RISE BY S/ .1,000 (U.S. \$7.60)
PER MONTH WITH AN ADDITIONAL S/1,000 ADDED TO
EXISTING FAMILY SUBSIDIES FOR MARRIED WORKERS. ACCORDING TO USDAO
(AARMA) PUBLIC SECTOR SALARY HIKES ALSO APPLY TO MILITARY (ENLISTED,
OFFICERS, AND RETIRED). IN THE PRIVATE SECTOR,
WORKERS WILL RECEIVE AN AMOUNT EQUIVALENT TO 27 PERCENT OF
THE MINIMUM WAGE IN EFFECT IN THEIR LOCALES, E.G. IN
LIMA THE ACROSS-THE-BOARD INCREASE WILL BE S/1,458
(U.S. \$11.20) PER MONTH. SAENZ ALSO KEPT THE DOOR
OPEN FOR FURTHER WAGE INCREASES IN AT LEAST TWO
IMPORTANT AREAS: (1) HE NOTED THAT THE INTER-
SECTORIAL COMMITTEE ON WAGES AND SALARIES CHAIRED BY
THE VICE MINISTER OF ECONOMY AND FINANCE WOULD CON-
TINUE TO STUDY THE WAGE SCENE AND WOULD MAKE
RECOMMENDATIONS FOR FURTHER WAGE INCREASES AS NECESSARY.
SAENZ SUGGESTED IN THIS REGARD THAT THE RECOMMENDATIONS
MIGHT COME IN MARCH WITH NEW WAGE INCREASES EFFECTIVE
IN APRIL. THE MINISTER ALSO LEFT THE DOOR OPEN IN THE
PRIVATE SECTOR TO WAGE INCREASES EARNED BY WORKERS AS A
RESULT OF COLLECTIVE BARGAINING, BASED ON THE INDIVIDUAL
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FIRM'S ABILITY TO PAY. WAGE INCREASES WERE JUSTIFIED BY
THE MINISTER ON THE BASIS THAT THEY WERE COMPUTED TO
OFFSET PARTIALLY A DECLINE IN PURCHASING POWER OVER
RECENT MONTHS. (COMMENT: AUTHORIZED WAGE INCREASES
FOR BOTH PUBLIC AND PRIVATE SECTORS APPEAR ROUGHLY COMPARABLE ON THE
AVERAGE WITH THE TEN PERCENT NORM CONTAINED IN THE IMF AGREEMENT;
I.E. WE ESTIMATE PUBLIC SECTOR EMPLOYEES MAKE AN AVERAGE OF ABOUT
S/17,000 PER MONTH, WHILE THE AVERAGE BLUE-COLLAR INDUSTRIAL
WORKER, ACCORDING TO THE MINISTRY OF LABOR, EARNS
S/14,085 PER MONTH. WAGE INCREASE WAS PROGRESSIVE
AND THE FEW WORKERS WHO MAKE AT OR NEAR THE S/5,400
MINIMUM WAGE WERE THE GREATEST BENEFICIARIES (27 PERCENT) IN
RELATIVE TERMS.)

3. PRICES. PRICE INCREASES WERE ANNOUNCED BY MINISTER
SAENZ WITH A CAREFUL EXPLANATION OF THE NEED FOR THEM,
NAND IN SOME CASE (E.E. BREAD, MILK, AND COOKING OIL)
A GRAPHIC DESCRIPTION OF HOW MUCH MORE COSTLY THE ITEMS
WOULD BE IF SUBSIDIES WERE COMPLETELY ELIMINATED. PRICE
INCREASES OF 17-33 PERCENT WERE ANNOUNCED FOR CERTAIN BASIC
FOODSTUFFS. HE SPECIFICALLY ANNOUNCED INCREASES FOR
RICE (25 PERCENT), BREAD (30 PERCENT), SUGAR (22 PERCENT), EVAPORATED

MILK (33 PERCENT), AND COOKING OIL (17 PERCENT). ACCORDING TO THE MINISTER

THE PRICE INCREASES FOR THE BASIC FOODSTUFFS ARE DUE TO INCREASED COSTS. HOWEVER MINISTER STRESSED THAT GASOLINE, BOTTLED GAS FOR DOMESTIC USE AND KEROSENE FOR DOMESTIC USE WOULD NOT INCREASE IN PRICE, BUT THAT INDUSTRIAL KEROSENE, DIESEL AND RESIDUALS WOULD INCREASE BY AN AVERAGE OF 33 PERCENT. PASSENGER TRANSPORT COSTS WILL GO UP BY 20-33 PERCENT, E.G. SCHOOL CHILDREN WILL PAY 4 RATHER THAN 3 SOLES ON PUBLIC TRANSPORT, WORKERS AND UNIVERSITY STUDENTS WILL PAY 6 RATHER THAN 5 SOLES, WHILE THE REGULAR ADULT FARE WILL RISE BY TWO SOLES TO S/.12 (US.S \$.09 (COMMENT: THE ONLY CLEAR DEVIATION FROM THE IMF STANDBY AGREEMENT WAS THE MINISTER REITERATION LIMITED OFFICIAL USE

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OF THE GOP DECISION NOT TO RAISE THE PRICE OF REGULAR GASOLINE, PRESAGED BY THE PRESIDENT'S REMARKS AT HIS DECEMBER 30 PRESS CONFERENCE. SAENZ USED THE SAME PHRASE AS IN THE IMF ACCORD THAT FOOD PRICE RISES ARE RELATED TO COST INCREASES, BUT THERE IS NO BASIS FOR A PRECISIEMNALCULATION.)

4. BUDGET. THE MINISTER ANNOUNCED THE SAME BASIC CENTRAL GOVERNMENT BUDGET FOR 1978 AS WAS PROMULAGATED BY THE GOP IN D.L. 22,049 (LIMA 0001) OF DECEMBER 29, 1977 WITH AN EXPENDITURE LEVEL OF S/.289.7 BILLION, BORKEN DOWN INTO S/.144.7 BILLION AS CAPITAL EXPENDITURES, S/.38.7 BILLION AS INTEREST ON DEBT, AND S/.61.2 BILLION AS AMORTIZATION OF DEBT. THOUGH THIS IS THE BEST DISAGGREGATION OF EXPENDITURES TO DATE, MORE DETAILSL WOULD HAVE BEEN HELPFUL, I.E. THERE WAS NO BREAKDOWN IN REGARD TO EXTERNAL AND DOMESTIC DEBT. ON THE REVENUE SIDE, HE PRESENTED S/.226.9 BILLION AS CURRENT REVENUES, S/.14.9 BILLION AS UTILIZATION OF EXTERNAL CREDITS AND S/.48.6 BILLION AS UTILIZATION OF DOMESTIC CREDIT.

5. THE MINISTER THEN REVIEWED IN DETAIL TAX MEASURES ENACTED IN DECEMBER; THE TERMINATION OF EXONERATION OF AGRICULTURAL COOPERATIVES FROM THE PAYROLL TAX, A BROADENING OF TAXES ON GOODS AND SERVICES, AN INCREASE IN RATES FOR THE TAXES ON BUSINESS NET WORTH AND ON REVALUATION OF FIXED ASSETS, AND A SHARP INCREASE FOR THE TAX ON COCA LEAVE. HE STATED THAT THE INCREASED TAXES ON PETROLEUM PRODUCTS (OF MID-JANUARY) WOULD INCREASE TREASURY REVENUES BY S/.6.1 BILLION. HE ALSO NOTED THAT BUDGETARY PROGRAMMING WAS AT PRESENT INCOMPLETE AND THAT THE GOP WAS STUDYING VARIOUS MEASURES TO REDUCE EXPENDITURES . (COMMENT: WE LIMITED OFFICIAL USE

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STILL DO NOT HAVE SUFFICIENT FACTS TO RELATE THE GOP BUDGET PRONOUNCEMENT TO THE IMF STANDBY CONDITIONS. FOR EXAMPLE, SAENZ STATED THAT THE CENTRAL GOVERNMENT'S 1977 DEFICIT, WHICH AT MID-YEAR 1977 HAD BEEN PROJECTED AT S/.76.8 BILLION, HAD BEEN REDUCED TO S/.29 BILLION. AS FOR 1978, IT IS NOT CLEAR HOW THE FIGURES GIVEN FOR THE CENTRAL GOVERNMENT BUDGET DEFICIT COMPARE WITH THE 3.5 PERCENT OF GDP DEFICIT FOR THE ENTIRE PUBLIC SECTOR PROJECTED BY THE IMF. THE GOP IS RELUCTANT TO ENTER INTO TECHNICAL DISCUSSIONS ABOUT THE BUDGET WITH US NOW).

6. COMMENT: MINISTER SAENZ'S SPEECH WAS A LENGTHY AND PONDEROUS BALANCING ACT BETWEEN THE PRESSURES OF LABOR UNREST AND POLITICAL CRITICISM, ON THE ONE HAND, AND THE NEED TO MAINTAIN IMF COMMITMENTS ON THE OTHER. EXCEPT FOR THE GASOLINE PRICE, WHICH HAS A BEARING ON THE PROSPECTS FOR A GENERAL STRIKE JANUARY 23-24 (THE GAS PRICE INCREASE WAS A RALLYING POINT FOR THE VIOLENCE LAST JULY), THE GOP APPEARS TO BE SQUEAKING BY ON ITS IMF TARGETS, AT LEAST FOR THE TIME BEING. THE SPEECH INITIALLY AT LEAST HAS BEEN RECEIVED WITH SOME EQUANIMITY BY ALL SECTORS. HOWEVER, AT LEAST A COUPLE OF POINTS ARE LIKELY TO CAUSE CONTINUING DIFFICULTY. FIRST, THE FLAT 1458 SOL WAGE INCREASE, WHICH SQUEEZES THE MIDDLE AND UPPER INCOME CLASSES HARDEST, WILL LIKELY EXACERBATE THE INVITATION TO FURTHER WAGE NEGOTIATIONS IN THE PRIVATE SECTOR. AND SECOND, THE GROWING CRITICISM THAT THE GOVERNMENT IS OVERLY SECRETIVE WITH ITS FACTS AND MAY HAVE NO COHERENT OVERALL STRATEGY FOR REVITALIZING PRODUCTION AND JOBS, IS FULLY BORNE OUT BY THE SAENZ PRESENTATION. SHLAUDEMANN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL CRISIS, PRESS CONFERENCES, ECONOMIC CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LIMA00473
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780026-0848
Format: TEL
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780156/aaaabuuj.tel
Line Count: 206
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 46d0cfe2-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3763673
Secure: OPEN
Status: NATIVE
Subject: FINANCE MINISTER OUTLINES NEW ECONOMIC MEASURES
TAGS: AFIN, EGEN, EALR, EFIN, SOPN, PE, (SAENZ BARSALLO, ALCIBIADES)
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/46d0cfe2-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014